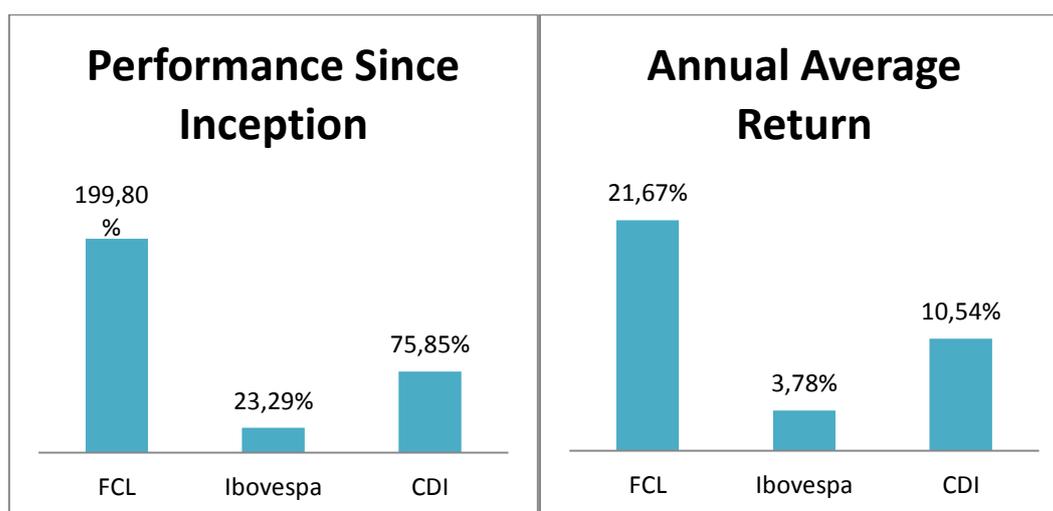


## Tables and Graphics:

Quota Value in 31/10/2012: 2.99808580		
Net Worth: R\$ 11,873,290.03		
Performance	In R\$	In US\$
October 2012	-7.28%	-7.43%
Last 12 months	28.10%	7.07%
Since Inception	199.80%	199.80%
Annual Average	21.67% a.a.	21.67% a.a.



### Highlights

-FCL Capital investment club returns 28.10% (in BRL) in the past 12 months, against -2.17% of the Ibovespa index and 9.15% of the Brazilian CDI;

-Our compounded annual return since inception is situated in 21.69% in US dollars and 21.63% in reais;

-On October 9<sup>th</sup>, 2012 the CVM (Brazilian equivalent of SEC) granted permission for the transformation of the FCL Investment club into a stock hedge fund to be called FCL Equities.

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## 1 - Investment Outlook - The End of the Beginning

For the past five and a half years our investors have been listening to our many investment theses. Invariably we would come up with an investment idea and an explanation of why we would be long or short in a particular stock or sector and our reasons for that.

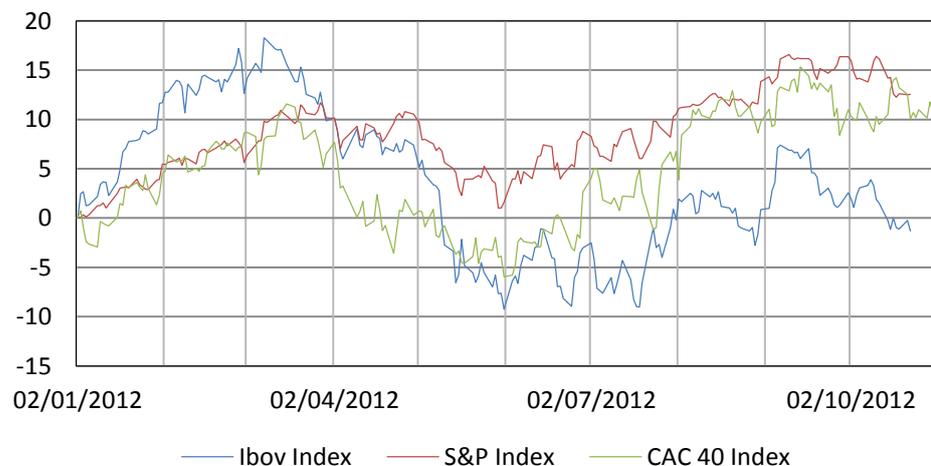
For once and only this time, we'll propose a change to our readers: since this is our last investment letter as an investment club, we'll talk about the rationale behind FCL's idea, our investment philosophy, an update of our vision to where the markets are right now and how we see the future.

All in all, we are gradually becoming more optimistic about the world's financial situation. At this point of the year we can finally say that the USA, still the world's most important and dynamic economy, began to solve most of its problems, helped specifically by the very sector of the economy that has put it into this mess in the first place: housing.

At the same time, the chance of a deep rupture in the Euro area decreased significantly, although it did not vanished completely. And equally important, China began to address its imbalance problems, avoided a hard landing and as in the date we write this letter, is having a smooth leadership transaction.

So if we had to sum up all of the above, we would say: we are leaving 2012 way better than we encountered it. That's not to say the world does not face huge problems. But we are saying the problems are smaller than they once were while equity indexes are at basically the same level, except for the S&P500.

### S&P 500 vs Ibov Index vs CAC 40 Index ytd.



According to our general assembly dating from May 31st, we asked our investors permission to transform our investment club

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into a full-fledged equity long-biased investment fund, essentially maintaining the same strategy, philosophy and team responsible for the club.

As our investors are aware by now, the CVM has on October 9th, finally granted approval to our request to convert our investment club into an investment fund so next month, if everything goes according to the plan, we'll be writing you the first monthly letter of the FCL Equities Investment Fund.

As everyone knows, the financial crisis we are still enduring has challenged many assumptions. And in our opinion one of them was a notion that we never believed in: the "financial supermarket" as envisioned by Sandy Well<sup>1</sup>, the notion that a company would perform better if it did a lot of different activities like asset management, banking, insurance, etc..

We, on the other hand, will never diverge from being no more than an asset management company. In fact, the more sophisticated a financial market is, the more its pool of money is managed not by financial conglomerates and banks, but by independent asset managers.

We believe emerging markets will go that way too and this is one of the notions behind FCL's founding. A second notion behind FCL was value investing. We all have our beliefs and each investor is unique in its framework. But we probably will always be associated with the value investing school of thought.

We believe FCL's track record along with the track record of many other emerging markets asset managers, value investors as well, that came before us buried once and for all the assumption that value investing was not suited for investing in emerging markets.

With that said, our mission on April 3rd 2007 was clear: we believed that value investing could be done in emerging markets, we believed we could practice a sophisticated, free from conflicts of interest investment management and we believed in time we could gather a group of long term investors that would share of philosophy. So we performed three tasks: to strive for good performance, to grow as a company and to have investors who believed in this philosophy.

Below is our patrimonial evolution through the last five and a half years:

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<sup>1</sup> The man who merged Travellers Group with Citicorp essentially creating the vision that a "financial supermarket" with a large range of product would perform better than a focused firm.

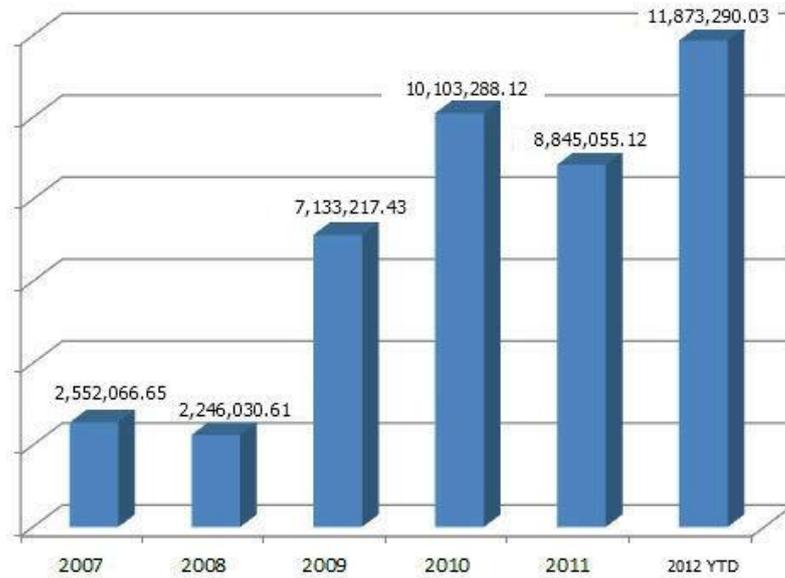
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## Evolution of AuM in BRL \*



\* At year's end except for 2012.

And more important than the fund's growth, of course, was the fund's performance for those who believed in the idea:

R\$ 1,000.00 Investment made in 04/03/2007	
Asset	Would be Worth in 31/10/2012:
FCL Capital	R\$ 2,998.08
Ibovespa	R\$ 1,232.90
CDI	R\$ 1,758.50

Gap between: (in BRL)	FCL and IBOV	FCL and CDI
2007	-17.59%	11.99%
2008	2.11%	-51.49%
2009	142.20%	214.98%
2010	28.51%	19.84%
2011	-5.57%	-35.32%
2012 YTD	26.75%	20.04%
Since Inception	176.71%	124.15%

So, you might ask, if the club went so well, if it grew, if it rewarded its investors, why to change it and transform it into an equity fund?

There are a few answers to this question. Bellow we try to list them in a systematic way:

1) **As a fund, we are qualified to have all kinds of investors, natural persons, companies, funds and insurance companies.**

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Therefore, we will be able to provide a better service to our investors. Many of our investors are in need of a more robust structure so they can manage their investments with us in a more professional manner. Our conversion in fund will help them achieve just that.

**2) As a fund, the compliance, regulation and overall activity is better regulated, monitored and enforced.**

We have always strived to have the back office and compliance of a fund even though we were an investment club. With that said, investment funds are much more scrutinized and regulated than clubs and therefore more professional.

**3) In a fund structure, we will be able to invest up to 10% of our net worth abroad.**

This change opens a giant new avenue of possibilities for our investors for investment and risk diversification purposes. As the pool of money we manage grows, one of our main tasks is to think about how to maintain our performance in the future. So we are very excited about the new possibilities that the conversion to a fund structure opens to us in terms of universe of investible assets.

**4) We are very slightly extending our redemption period, from 4 days to 12 days.**

The new redemption period is more suited to our strategy and adapts us to our philosophy of concentrated bets in not so liquid securities. This way we can be more confident and safe about executing our investment strategy than before, without decreasing our investor's liquidity too much.

One of the most important tasks of a fund manager is to meet the redemption requests of his investors while executing his investment strategy. We believe in a fund structure we will have a little more flexibility to execute that strategy, and our investors will have extra security of having a more robust structure in their favor.

**5) We will not change our team, strategy and investment philosophy.**

We have a more professional structure and a new product, but we are still the same FCL Capital our investors know.

Looking back, we have surely been through a few nervous years for the financial markets, but all in all, we can say that we had a good performance, as judged by our advantage over the CDI and the Ibovespa index. We also grew a lot in terms of assets under management, compliance and sophistication in the period and, most importantly, we were able to start to gather investors aligned with our philosophy.

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We thank each one of you for being part of the success so far and we thank you again for your enthusiasm, confidence and vision. Now this story ends and a new story begins and we could not be more motivated and energetic to do our best for you. See you all next month.

## 2 - Clube de Investimentos FCL Capital

A very bad month in a still very good year: If we had to summarize this past October that's pretty much how we would present it to our investors. Over the last 30 days, strong particularities affected our two largest positions: Minerva (BEEF3) & Fertilizantes Heringer (FHER3).

### Minerva

The investment business is made of uncertainties. So every investment professional has to make assumptions about the future and hope that most of them will turn out to be, at least partially, true. It is unusual to make a "home run" where things turn out even better than we were anticipating.

That's what happened to Minerva over the past 12 months: our insight that it was a world class company, in a great industry where its home country is full of competitive advantages and at a great valuation went from being far from conventional wisdom at the beginning of the year to be widely accepted now.

So Minerva is at the top of every return table of Brazilian stocks in the year of 2012 to date, with a performance of some +120% up to this point, being responsible for much of our club's overperformance when compared to the Ibovespa index this year.

That being said, some yellow flags that Minerva's management was starting to feel "too happy" about its newfound financial situation were on display: first the controllers sold a 5% stake in the company. Now it turns out that a new stock offering in coming, this time with significant dilution to minority shareholders.

We are against the offering for the above mentioned reason, but we've made our calculation and we still think Minerva is one of the best opportunities in the Brazilian stock index today, even accounting for the dilution this stock offering will bring. For the short term, however, the stock had a bad month, impacting the club's performance.

### Heringer

Fertilizantes Heringer is one of the cheapest and least understood companies in Bovespa right now. It is being sold for a very low multiple when in fact it is a great business. Heringer's management

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made a serious mistake, in our opinion, this past month, when in a series of meetings with investors in New York, they let it slip that this year's third quarter, the most important in the fertilizer distribution business in Brazil, was not going very well, prior to the actual results being released.

We consider this unequal treatment among investors. We know that the investor's relation team has a duty of managing the financial community expectations but disclosing, to some investors first, a situation that lead to a cut of R\$ 100M in the consensus of this year's EBITDA does not fit the bill. We hope this does not happen again. That being said, we have a great relationship with Heringer's management, we still like the company, still think it is being sold at ridiculously cheap levels and have not sold a single share this past month.

Bottom line: Our two biggest investments had a bad month but a great year and we are still very excited about them. This past few weeks' turbulence does not change our view about this two great business in any meaningful way.

## Performance

The net decrease in book value per share of FCL Capital Investment Club was of -7.43% in US dollars (-7.28% in reais), against -3.62% of the Ibovespa index (-3.56% in reais) and +0.54% of the Brazilian CDI (+0.60% in reais). Over the past 12 months FCL's performance is of +28.10% in reais, against -2.17% of the Ibovespa Index and +9.15% of the CDI. Our compounded annual return since inception, our most important internal metric, is 21.69% in US dollars and 21.63% in reais.

## About FCL Capital

FCL Capital is an independent investment company, focused on portfolio management, free from conflicts of interest and multiple objectives that has for a mission the preservation and multiplication of its investors' capital, through a thorough financial analysis. Our goal is to generate absolute returns, staying solid and consistent through good and bad periods of the economic cycle.